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FM AMEMBASSY QUITO  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 7872  
INFO RUEHBO/AMEMBASSY BOGOTA PRIORITY 6954  
RUEHCV/AMEMBASSY CARACAS PRIORITY 2706  
RUEHLP/AMEMBASSY LA PAZ OCT 0745  
RUEHPE/AMEMBASSY LIMA PRIORITY 1985  
RUEHGL/AMCONSUL GUAYAQUIL PRIORITY 2904  
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY

UNCLAS QUITO 002292

SIPDIS

SENSITIVE  
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TREASURY FOR MMALLOY AND MEWENS

E.O. 12958: N/A  
TAGS: [ECON](#) [ETRD](#) [EINV](#) [EC](#)  
SUBJECT: ECUADOR ECON WEEKLY: Falling FDI, More Costly Flour  
Subsidy, Crack-down on Fuel Contraband

REF: A: 06 QUITO 1722

B: QUITO 2114  
C: QUITO 1842

11. (U) The following is a weekly economic update for Ecuador that reports notable developments that are not reported by individual cables.

Decrease in Foreign Direct Investment  
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12. (U) According to recently published data from the Central Bank, foreign direct investment (FDI) in Ecuador in 2006 was the smallest in the last five years. FDI was USD 783 million in 2002 but fell 65% to USD 271 million in 2006. According to the Central Bank data, over the past two years foreign investment in mining and petroleum has stagnated. Economic analysts blame the departure of US firm Occidental Petroleum in 2006 and delays in renegotiating oil contracts following the 2006 revenue sharing requirement (ref a) for the decline in petroleum investment.  
Larger Flour Subsidies through December  
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13. (U) The GOE agreed to continue subsidizing flour until December 2007 to avoid an increase in bread prices. Given higher world prices for wheat, the production cost for a 50 kilogram sack of flour has increased to \$36 from \$27 when the GOE first established its subsidy program (ref b). The GOE and millers met to renegotiate flour subsidies October 2. Millers agreed to sell to the GOE at \$32 per 50 kilogram sack (below market prices); the GOE will sell sacks to bakers at \$22 (an increase in the per sack subsidy from \$3.50 in September to \$10). Gonzalo Correa of the Ecuadorian Millers Association expects another upward adjustment in prices in December if international wheat prices continue rising as expected. Meanwhile, the local media have reported that some small bakers cannot meet the terms to purchase subsidized flour and are buying flour at the full market price.  
Fuel Smugglers Arrested Under New Law  
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14. (SBU) After seven months of investigation, the National Police Investigation Unit for Energy Crimes arrested a fuel smuggling gang October 2 under Ecuador's new Energy Sovereignty Law (ref c). The 20 arrested smugglers will be the first to be tried under this law. According to Minister of Petroleum and Mines Galo Chiriboga, employees from state oil company Petroecuador could be implicated. (Comment: Fuel smuggling is highly profitable since heavily subsidized fuel in Ecuador is much cheaper than in Peru or Colombia. Flour producers have suggested flour subsidies may eventually

create the same problem in their sector.)  
JEWELL